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Message Text

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PAGE 01 MANILA 11328 01 OF 02 020654Z

11
ACTION TRSE-00

INFO OCT-01 EA-07 ISO-00 CIAE-00 PM-04 H-02 INR-07 L-03

NSAE-00 NSC-05 PA-01 PRS-01 SP-02 SS-15 USIA-06

AID-05 COME-00 EB-07 FRB-03 XMB-02 OPIC-03 CIEP-01

LAB-04 SIL-01 OMB-01 CEA-01 STR-04 NEA-10 IO-13 /109 W
---------- 097237
P R 020555Z AUG 76
FM AMEMBASSY MANILA
TO SECSTATE WASHDC PRIORITY 8232
INFO AMEMBASSY JAKARTA PRIORITY
AMCONSUL SURABAYA

LIMITED OFFICIAL USE SECTION 1 OF 2 MANILA 11328

USADB

FOR NAC AGENCIES

E.O. 11652: ADS, DECLAS: 11/2/76
TAGS: EAID, EFIN
SUBJECT: PROPOSED ADB TECHNICAL ASSISTANCE (TA) FINANCING FOR
BANDUNG URBAN DEVELOPMENT AND SANITATION PROJECT AND
SOUTH EAST SULAWESI TRANSMIGRATION AREA DEVELOPMENT
PROJECT

REF: (A) 75 MANILA 14638, (B) 75 MANILA 9263

SUMMARY: ADB MANAGEMENT PROPOSES $1.15 MILLION EQUIVALENT
TA LOAN FROM ORDINARY CAPITAL RESOURCES AND $100,000 EQUIVALENT
TA GRANT TO GOVERNMENT OF INDONESIA TO FINANCE FOREX COST OF
CONSULTING AND SPECIALIST SERVICES, AND EQUIPMENT NEEDED FOR
PREPARATION OF LONG-TERM URBAN DEVELOPMENT PLAN AND UNDERTAKING
FEASIBILITY STUDY FOR A FIRST STAGE PROJECT FOR BANDUNG
MUNICIPALITY. A SECOND TA LOAN TO INDONESIAN GOVERNMENT AMOUNTING
TO $280,000 EQUIVALENT IS PROPOSED FROM ORDINARY CAPITAL
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PAGE 02 MANILA 11328 01 OF 02 020654Z

RESOURCES TO FINANCE PART OF FOREX COST OF CONSULTING SERVICES

Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006

Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006

AND QUIPMENT IN PREPARATION OF TEN-YEAR OUTLINE PLAN AND FEASIBILITY STUDY FOR DEVELOPMENT OF EXISTING AND NEW PRIORITY SETTLEMENTS FOR MIGRANTS IN SOUTH EAST SULAWESI PROVINCE. BOTH PROJECTS WERE PREVIOUSLY APPROVED BY BOARD OF DIRECTORS FOR BANK TO ACT AS EXECUTING AGENCY WITH UNDP BEARING ENTIRE FOREX COST. HOWEVER, UNDP HAS EXPERIENCED SHORT-TERM DIFFICULTIES RELATING TO PROJECT FINANCING IN 1976 WHICH HAS NECESSITATED PRESENT PROPOSAL. USADB RECOMMENDS FAVORABLE NAC ACTION.

1. ADB DOC. R82-76 WITH ATTACHMENTS DESCRIBING PROPOSED LOANS AND GRANT POUCHED ADDRESSEES JULY 29. BOARD CONSIDERATION SCHEDULED AUGUST 26.

2. IN NOVEMBER 1975 AND JULY 1975, ADB BOARD OF DIRECTORS APPROVED SEPARATE PROPOSALS FOR BANK TO ACT AS EXECUTING AGENCY FOR PROJECT PREPARATORY TA, RESPECTIVELY, FOR BANDUNG URBAN DEVELOPMENT AND SANITATION PROJECT AND SOUTH EAST SULAWESI TRANSMIGRATION AREA DEVELOPMENT PROJECT. UNDP WAS TO BEAR ENTIRE FOREX COST, ESTIMATED AT $1.163 MILLION FOR BANDUNG PROJECT AND $495,600 FOR SULAWESI PROJECT. LOCAL CURRENCY COST OF ESTIMATED $207,000 EQUIVALENT FOR BANDUNG PROJECT AND $84,940 EQUIVALENT FOR SULAWESI PROJECT WAS TO BE FINANCED BY INDONESIAN GOVERNMENT.

3. IN APRIL 1976, UNDP INFORMED BANK THAT AS RESULT OF SHORT-TERM FINANCIAL DIFFICULTIES, IT COULD PROVIDE ONLY $224,868 TOWARD PARTIAL FINANCING OF SULAWESI PROJECT AND THAT NO FUNDS COULD BE MADE AVAILABLE BY IT DURING 1976 FOR BANDUNG PROJECT. GOVERNMENT THEN APPROACHED BANK FOR (A) ENTIRE FINANCING OF FOREX COST, NOW ESTIMATED AT $1.25 MILLION, FOR BANDUNG PROJECT AND (B) PARTIAL FINANCING (TO EXTENT OF SHORTFALL IN UNDP FUNDS) OF FOREX COST, NOW ESTIMATED AT $280,000, FOR SULAWESI PROJECT.

4. IN MAY, BANK RE-APPRAISAL MISSION VISITED INDONESIA TO REVIEW AND UPDATE TECHNICAL, FINANCING AND IMPLEMENTATION ARRANGEMENTS FOR BOTH PROJECTS. MISSION COMVLUDED THAT NO MATERIAL CHANGE HAD OCCURRED IN TECHNICAL ASPECTS OF EITHER PROJECT, AND CONSIDERED THEM SUITABLE FOR TA LOANS.

5. BANDUNG PROJECT ENTAILS PREPARATION OF LONG-TERM URBAN
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PAGE 03 MANILA 11328 01 OF 02 020654Z

DEVELOPMENT PLAN AND UNDERTAKING OF FEASIBILITY STUDY FOR FIRST STAGE PROJECT FOR BANDUNG MUNICIPALITY. PROJECT WOULD ASSIST GOVERNMENT IN ADOPTING INTEGRATED APPROACH WITH PARTICULAR EMPHASIS ON IMPROVING LIVING CONDITIONS OF URBAN POOR WHO CONS-TITUTE ABOUT 80 PERCENT OF CITY'S TOTAL POPULATION (REF A REFERS) SULAWESI PROJECT WILL HELP GOVERNMENT IN PREPARATION OF OUTLINE PLAN, COVERING TEN-YEAR PERIOD, AND IN UNDERTAKING FEASIBILITY STUDY FOR DEVELOPMENT OF EXISTING AS WELL AS NEW PRIORITY

Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006

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SETTLEMENTS OF MIGRANTS FROM OVERCROWDED ISLANDS IN COUNTRY.
(REF B RFERS) BOTH PROJECTS HAVE HIGH SOCIO-ECONOMIC CONTENT.

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PAGE 01 MANILA 11328 02 OF 02 020701Z

11
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INFO OCT-01 EA-07 ISO-00 CIAE-00 PM-04 H-02 INR-07 L-03

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AID-05 COME-00 EB-07 FRB-03 XMB-02 OPIC-03 CIEP-01

LAB-04 SIL-01 OMB-01 STR-04 CEA-01 NEA-10 IO-13 /109 W
---------- 097265
P R 020555Z AUG 76
FM AMEMBASSY MANILA
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LIMITED OFFICIAL USE SECTION 2 OF 2 MANILA 11328

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6. ESTIMATED COST OF BANDUNG PROJECT HAS BEEN REVISED FROM TOTAL OF $1.370 MILLION TO $1.785 MILLION. FOREX COMPONENT HAS RISEN FROM $1.163 MILLION TO $1.250 MILLION, AND LOCAL CURRENCY COST FROM $207,000 TO $535,000 EQUIVALENT. INCREASE IN FOREX COST IS PRIMARILY DUE TO INCLUSION OF CONTINGENCIES PREVIOUSLY NOT INCLUDED IN COST ESTIMATES IN ACCORDANCE WITH UNDP PRACTICE. SUBSTANTIAL RISE IN LOCAL CURRENCY COST IS DUE TO APPROPRIATE PROVISION NOW HAVING BEEN MADE FOR CONTINGENCY AND FOR MEETING COSTS INVOLVED IN LOCAL PURCHASE OF EQUIPMENT AND VEHICLES. ENTIRE FOREX REQUIREMENT IS PROPOSED TO BE MET FROM BANK'S FINANCIAL ASSISTANCE. IN LINE WITH BANK'S POLICY TO FINANCE PART OF FOREX COST OF FEASIBILITY STUDIES ON GRANT BASIS, BANK PROPOSES THAT $100,000 BE PROVIDED AS TA GRANT AND BALANCE OF $1.15 MILLION FINANCED UNDER TA LOAN FROM BANK'S OC RESOURCES. LOAN WOULD HAVE TERM OF TEN YEARS, INCLUDING TWO YEARS GRACE.

Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006

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LOCAL CURRENCY COST OF $535,000 EQUIVALENT WILL BE FINANCED FROM GOVERNMENT'S OWN RESOURCES. COST OF FIRST-STAGE PROJECT, WHICH
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PAGE 02 MANILA 11328 02 OF 02 020701Z

WILL BE FORMULATED UNDER PROPOSED STUDY, IS TENTATIVELY ESTIMATED AT ABOUT $45 MILLION, INCLUDING ABOUT $19 MILLION FOREX COMPONENT.

7. ESTIMATED COST OF SULAWESI PROJECT HAS NOW BEEN REVISED FROM TOTAL OF $580,540 TO $719,929. FOREX COMPONENT HAS INCREASED FROM $495,600 TO $504,868, AND LOCAL CURRENCY COST FROM $84,940 TO $215,061 EQUIVALENT. AGAIN, INCREASE IN FOREX COMPONENT IS DUE PRIMARILY TO APPROPRIATE PROVISION HAVING BEEN MADE FOR CONTINGENCIES. STEEP RISE IN LOCAL COST IS DUE TO EXPENSES WHICH GOVERNMENT HAS CONTINUED TO INCUR SINCE NOVEMBER 1975 ON COUNTERPARTS, OTHER FACILITIES (INCLUDING RENTING OF OFFICE BUILDINGS) AND INCREASED COST OF SERVICES TO BE PROVIDED BY GOVERNMENT. OF TOTAL FOREX REQUIREMENT, $224,868 WILL BE PROVIDED BY UNDP AS GRANT. BANK PROPOSES TO MEET BALANCE (TO EXTENT OF SHORTFALL IN UNDP FUNDS) BY TA LOAN AMOUNTING TO $280,000 FROM BANK'S OC RESOURCES. SINCE UNDP FUNDS ARE BEING PROVIDED ON GRANT BASIS, BANK FINANCING FOR SULAWESI PROJECT DOES NOT INCLUDE TA GRANT. OF PROPOSED BANK LOAN, $231,500 WOULD BE SPENT ON CONSULTANT SERVICES, $16,000 ON PURCHASE OF EQUIPMENT/ VEHICLES AND $32,500 ON CONTINGENCIES. AS FAR AS POSSIBLE, UNDP FUNDS WOULD BE UTILIZED FULLY PRIOR TO DISBURSEMENTS UNDER PROPOSED BANK LOAN. LOAN WOULD HAVE TERM OF TEN YEARS, INCLUDING TWO YEARS GRACE. LOCAL CURRENCY COST OF $215,061 EQUIVALENT WILL BE FINANCED FROM GOVERNMENT'S OWN RESOURCES. COST OF IMPLEMENTING FIRST-PHASE PROJECT IS NOW ESTIMATED AT $40 MILLION, INCLUDING ABOUT $20 MILLION FOREX COMPONENT. (AT THIS STAGE, BANK IS NOT COMMITTED TO FINANCE FOLLOW-UP PROJECTS FOR EITHER OF THESE TWO TA PROJECTS.)

8. BANDUNG PROJECT IS AIMED AT IMPROVING LIVING CONDITIONS OF URBAN POOR WHO ARE LIVING IN SUB-STANDARD CONDITIONS AND DO NOT HAVE BASIC NECESSITIES OF LIFE BY PROVIDING ACCESS TO SUBSTANTIALLY IMPROVED URBAN SERVICES. WHEN COMPLETED, FIRST-STAGE PROJECT IS LIKELY TO RESULT IN DIRECT BENEFITS TO ABOUT 25 PERCENT OF CITY'S POPULATION. FIRST PHASE OF SULAWESI PROJECT WILL INCLUDE HEALTH AND EDUCATION FACILITIES, IMPROVEMENT AND EXPANSION OF EXISTING VILLAGE IRRIGATION SCHEMES, REHABILITATION OF NUMBER OF DISTRICT AND ACCESS ROADS AND PREPARATION OF DETAILED PLANS AND FEASIBILITY STUDIES FOR A SECOND PHASE PROJECT. ABOUT 18,000 FAMILIES IN PROJECT AREA STAND TO BENEFIT FROM NEW SOURCES OF INCOME AND WILL CONTRIBUTE TO GREATER AGRICULTURAL WEALTH OF COUNTRY. USADB
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PAGE 03 MANILA 11328 02 OF 02 020701Z

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SUPPORTS PROPOSAL AND RECOMMENDS FAVORABLE NAC ACTION.

9. REQUEST JAKARTA'S COMMENTS FOR NAC AGENCIES, INFO USADB MANILA, PURSUANT TO STATE 119795 DATED 3 JULY 1972.
SULLIVAN

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EO Systematic Review
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